



# Casino Market Study

July 30, 2019



## Introductions

- Alan Meister, Ph.D.  
CEO & Principal Economist  
Meister Economic Consulting
- John Repa  
President  
Hospitality and Gaming Solutions



## Scope of Study

- Site Analysis
- Area Review
- Gaming Markets - Nearby States
- Gaming Market Analysis - Portsmouth Casino
- Recommended Programming
- Financial Analysis
- Other Strategic Issues



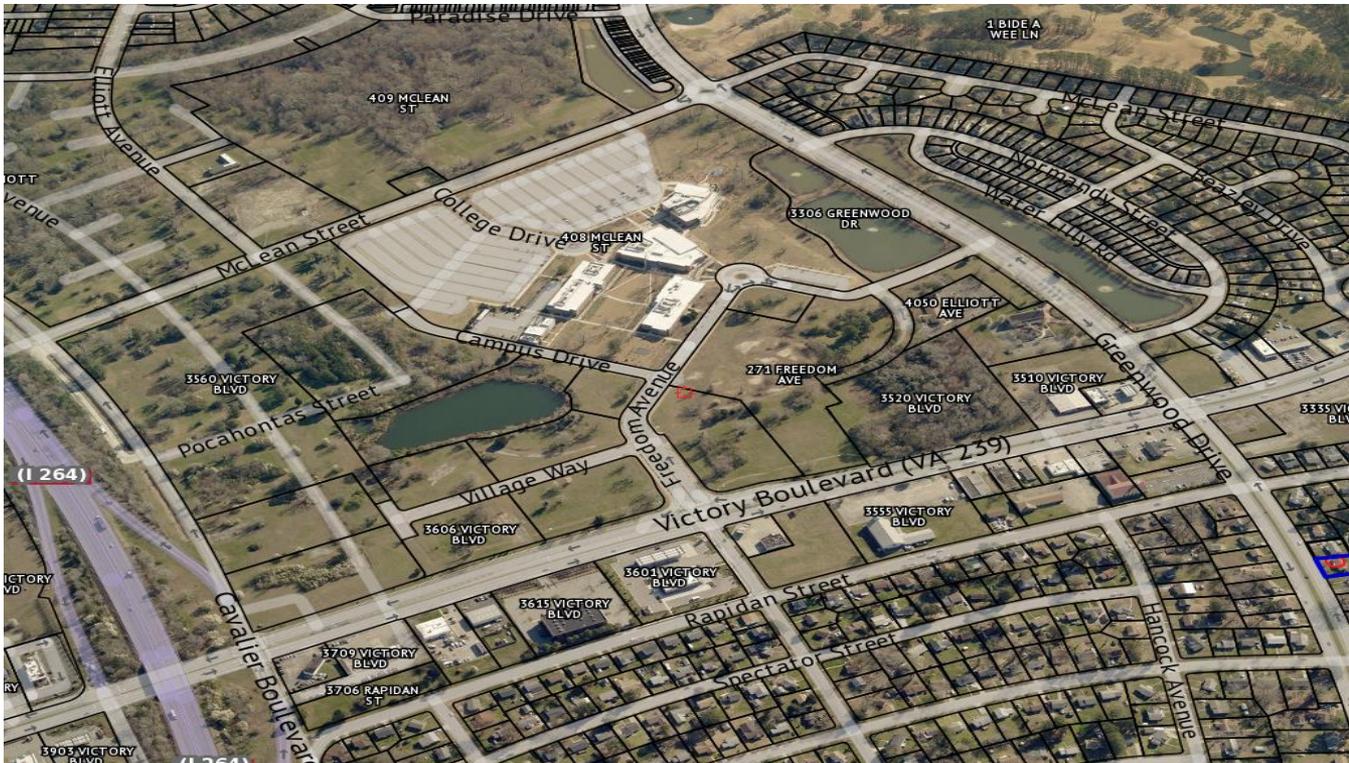
## Site Analysis

- Access
- Visibility and other site factors
- Relationship to area amenities
- Other considerations



## Site Analysis

**Victory Village site = 50.5 acres**





# Site Analysis

## Access

- Direct and uncomplicated access from I-264
- Infrastructure improvements will enhance and decrease drive time





## Site Analysis

### Visibility and Other Site Factors

- The casino development will be visible from I-264
- Exit 3 ingress and egress lanes need to be widened from two lanes to four lanes
- Relatively flat topography of the site
- Currently there is a residential barrier from the entertainment district



## Site Analysis

### Relationship to Area Amenities

- 18-hole golf course
  - Owned and subsidized by the City
- Limited food & beverage
- Limited retail
- Closest hotel is Renaissance Portsmouth Waterfront Hotel
- Access to the hospitality workforce pipeline at Tidewater Community College





## Site Analysis

### Other Considerations

- Largest identified development parcel in Portsmouth and Norfolk
- The 50 acre site is owned and controlled by the City of Portsmouth
- Real estate taxes



## Area Review

- Population
- Income levels and trends
- Employment and labor force
- Tourism
- Transportation



# Population

## Population Forecast

Year	Virginia Beach-Norfolk-Newport News MSA	Percent Change	Commonwealth of Virginia	Percent Change
2020	1,754,000	-	8,744,000	-
2030	1,841,000	4.94%	9,547,000	9.18%
2040	1,900,000	3.23%	10,202,000	6.86%

Source: U.S. Census Bureau, Claritas Demographics.



## Income Levels and Trends

2019 and 2024 Average and Median Household Income Levels				
Area	Average Household Income 2019	Average Household Income 2024	Median Household Income 2019	Median Household Income 2024
Virginia Beach MSA	\$87,656	\$96,301	\$67,414	\$72,848
Commonwealth of Virginia	\$105,163	\$113,367	\$73,579	\$79,411



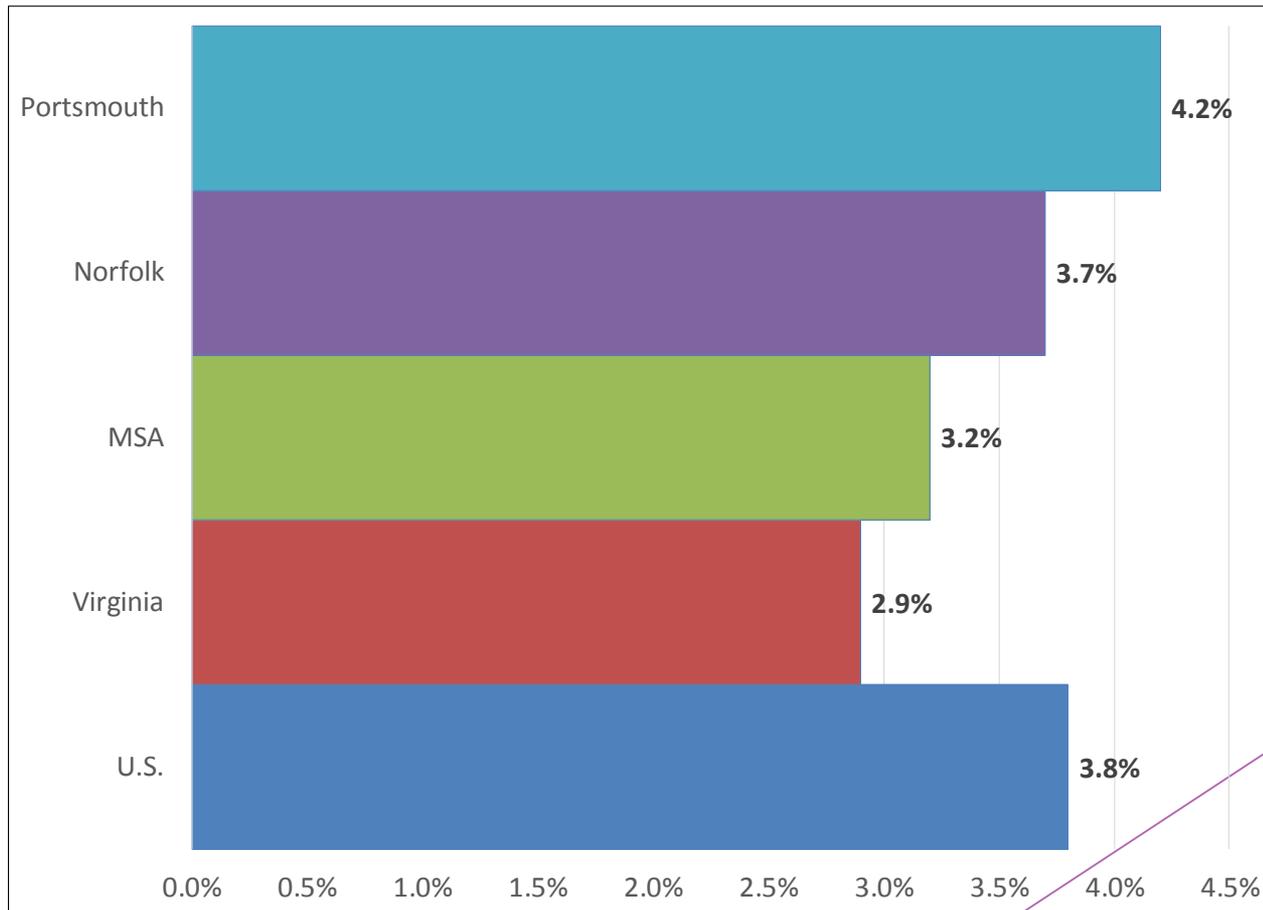
# Employment and Labor Force

- Region reliant upon government, military, manufacturing, and services

Portsmouth Top 5 Employers	
Rank	Employer
1	Norfolk Naval Shipyard
2	Naval Medical Center Portsmouth
3	Portsmouth City Public Schools
4	City of Portsmouth
5	Bon Secours Hampton Roads Health System



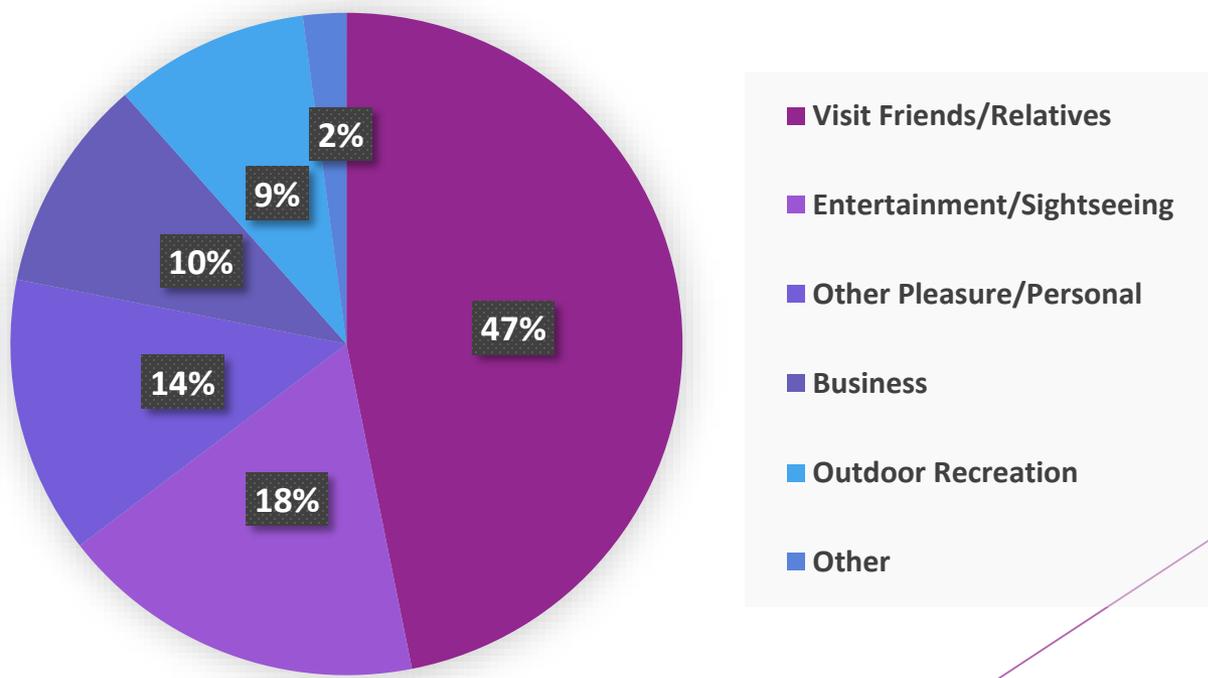
## Unemployment (2019 YTD)



Source: U.S. Census Bureau.

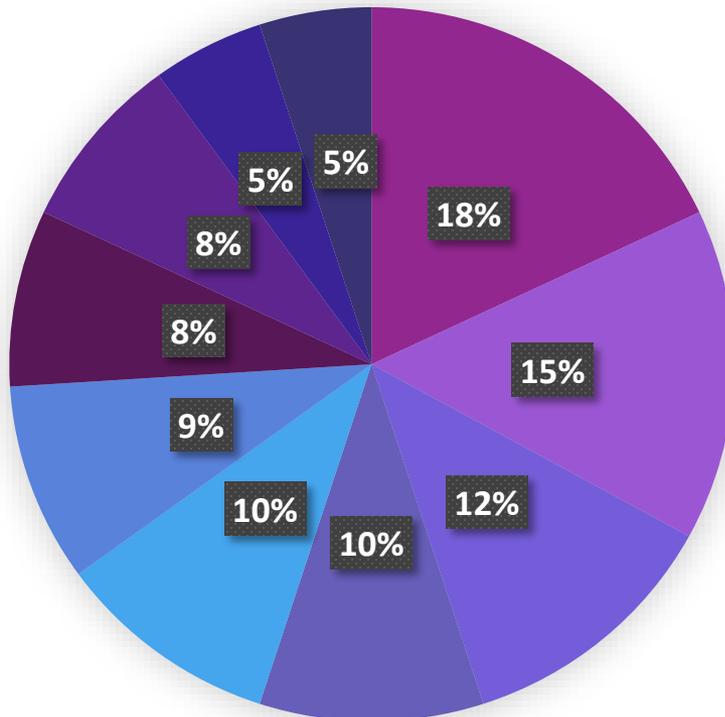


### Purpose of Trip





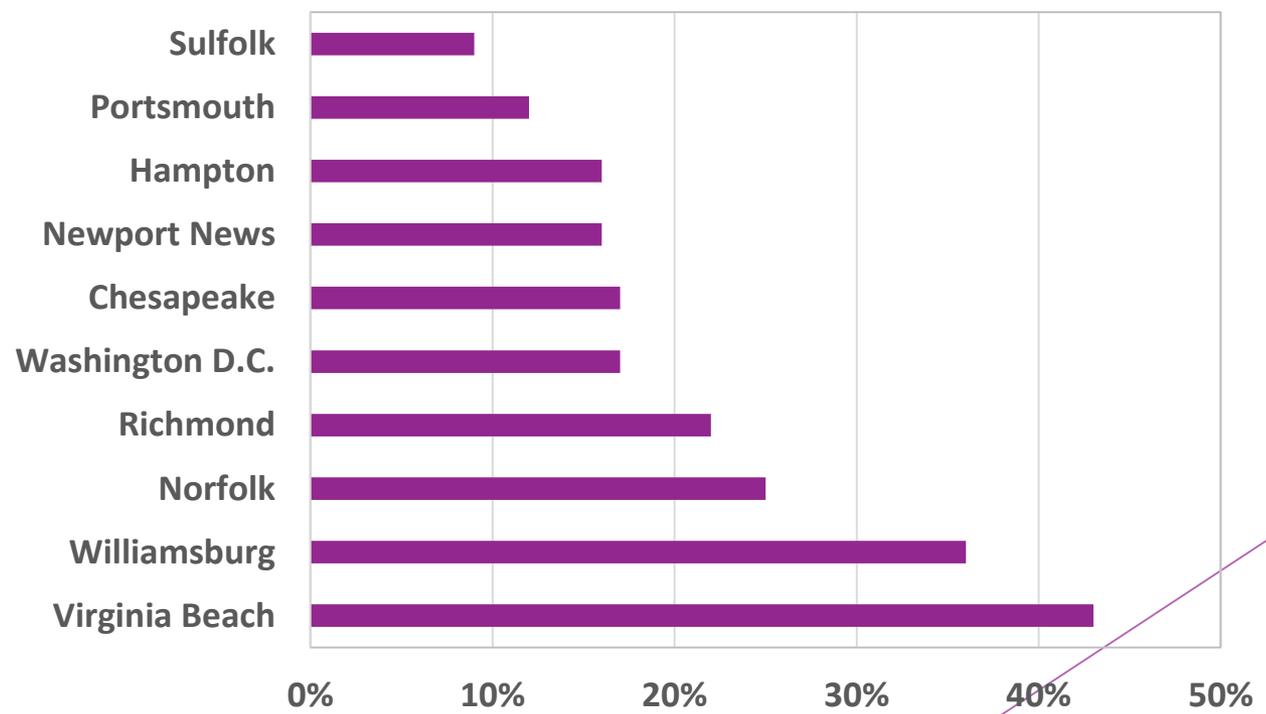
### Top Activities



- Visiting Relatives (18%)
- Shopping (15%)
- Beach (12%)
- Historic Sites/Churches (10%)
- Fine Dining (10%)
- Museums (9%)
- Rural sightseeing (8%)
- Visiting Friends (8%)
- Theme/amusement park (5%)
- Urban Sightseeing (5%)



### Top 10 Most Visited Cities in Region





# Transportation

## Air

- Norfolk International
  - 6 airlines; 4.32% CAGR
- Newport News International
  - American and Delta, -5.11% CAGR
- Hampton Roads Executive Airport
  - 5 miles from the site

## Highway

- Interstate 64 bridge tunnel project
  - Increase from 4 to 8 lanes scheduled to be completed in 2025





## Gaming Markets - Nearby States

- Maryland
- West Virginia
- Delaware
- North Carolina



# Gaming Markets - Nearby States





# Gaming Markets - Nearby States

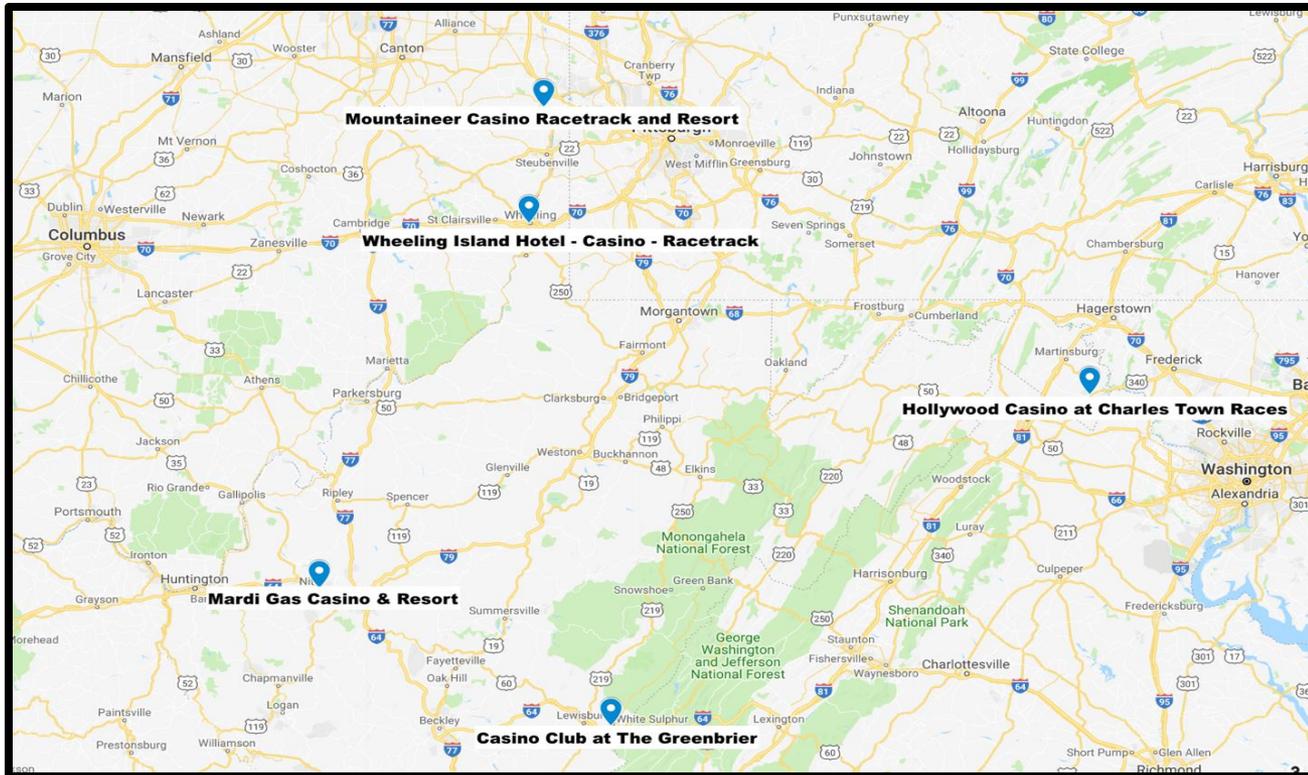
## Maryland Facts and Metrics

- Inception: 2010
- 6 gaming facilities
- Total VLTs: 11,535
- Total table games: 594
- Total gaming revenue: \$1.746 billion (FY 2018)
- VLT performance: \$274 WPD
- Table game performance: \$3,600 WPUPD
- MGM & Maryland Live: 73% of market share



# Gaming Markets - Nearby States

## West Virginia





# Gaming Markets - Nearby States

## West Virginia Facts and Metrics

- 5 gaming facilities: 4 racinos + 1 land-based (Greenbrier)
- Total gaming revenue: \$606 million (FY 2018)
- Sports betting



# Gaming Markets - Nearby States

## West Virginia Facts and Metrics

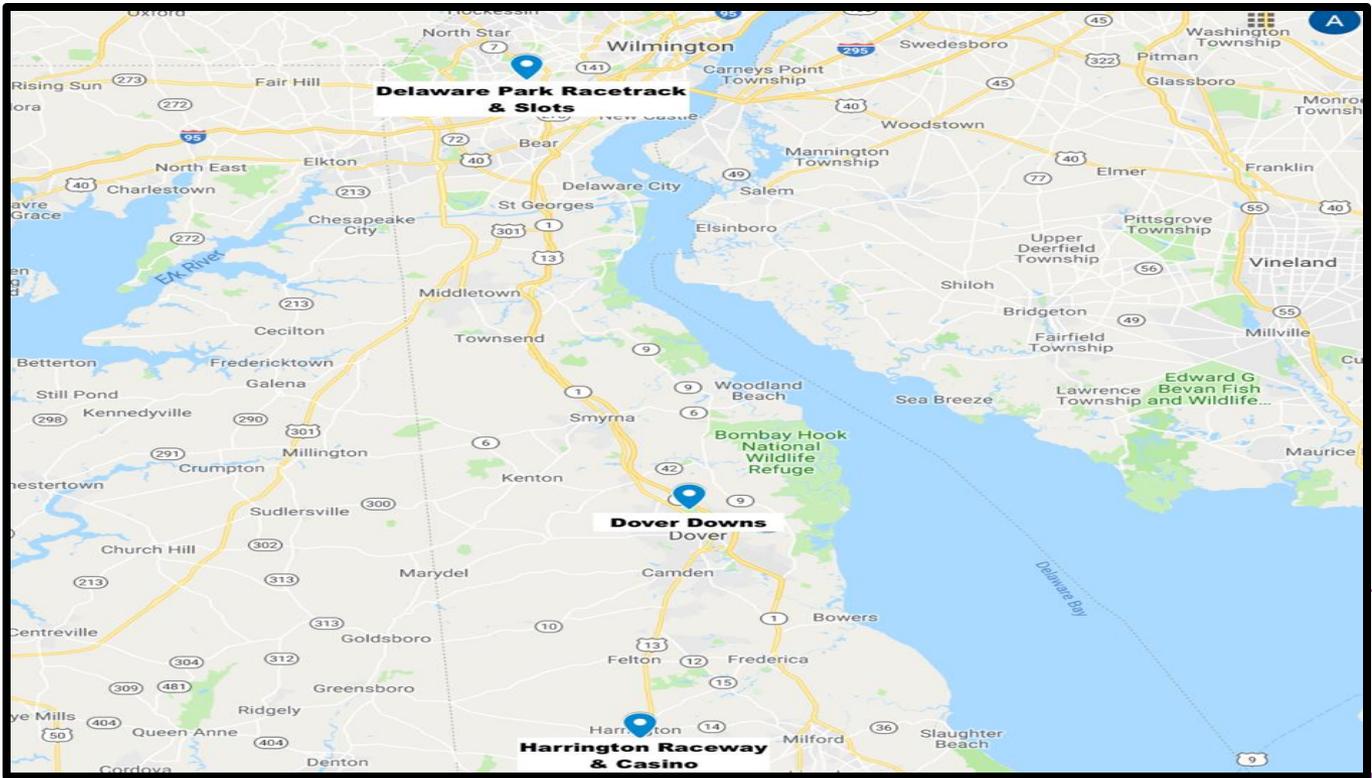
West Virginia Casinos Distance and Time Travel		
Property	Distance to Portsmouth	Drive Time
Hollywood Casino at Charles Town Races	246 miles	4 hours
Casino Club at the Greenbrier	290 miles	4.5 hours
Mardi Gras Casino	422 miles	6.5 hours
Wheeling Island Hotel Casino Racetrack	462 miles	7.5 hours
Mountaineer Casino & Racetrack	479 miles	8 hours

Source: Google Maps.



# Gaming Markets - Nearby States

## Delaware





# Gaming Markets - Nearby States

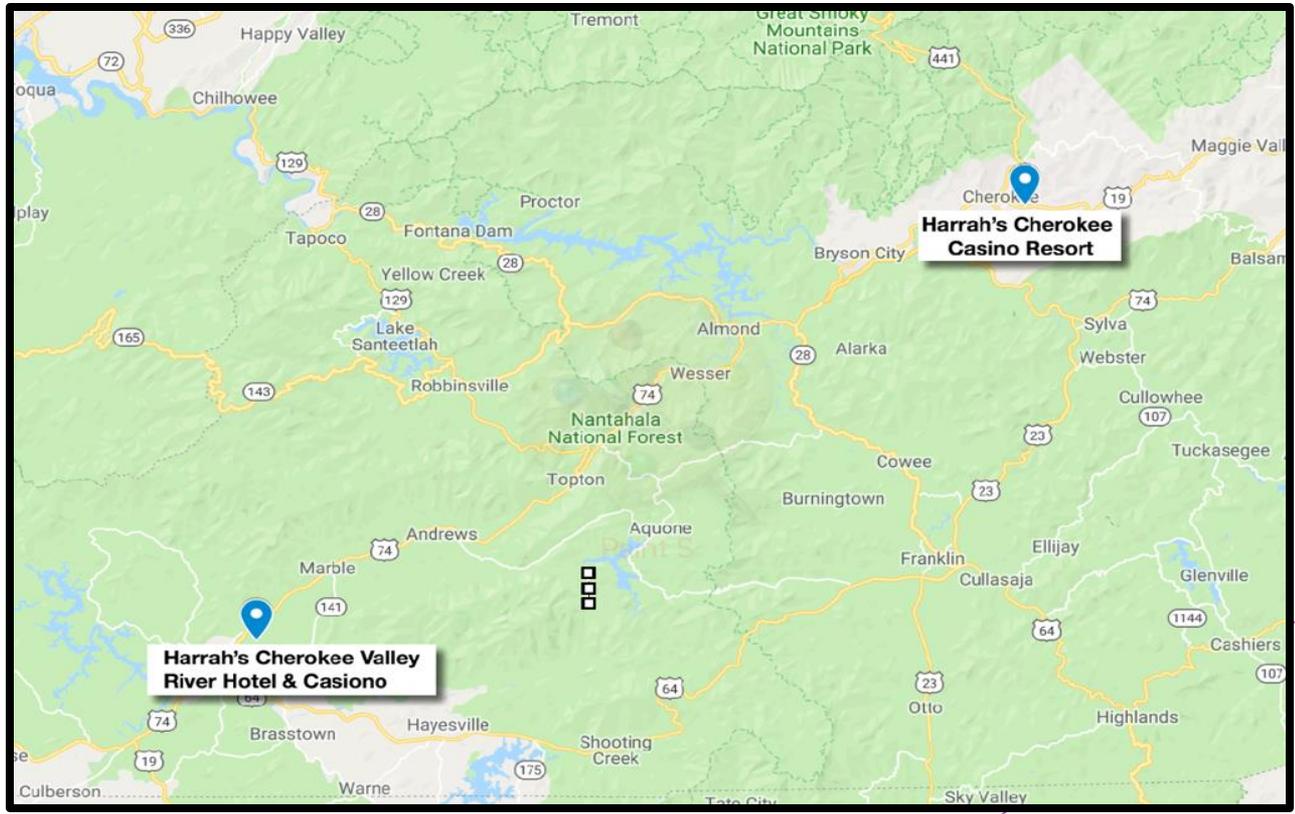
## Delaware Facts and Metrics

- Inception - VLTs: 1995
- Inception - table games: 2010
- 3 gaming facilities
- Total VLTs: 6,240
- Total table games: 117
- Performance WPUPD: VLT - \$155, Tables - \$1,577
- Total gaming revenue: \$419 million (FY 2018)



# Gaming Markets - Nearby States

## North Carolina





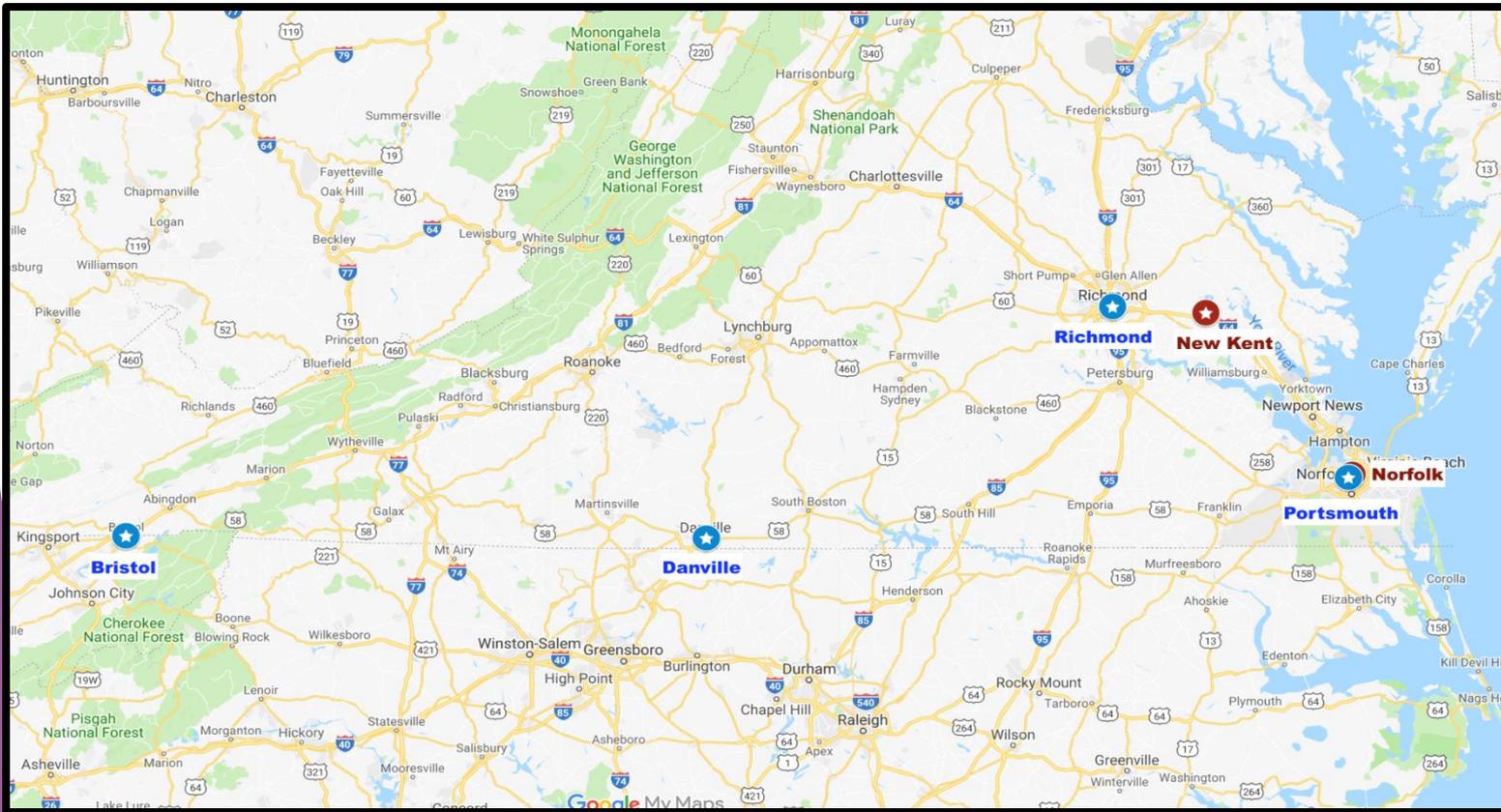
# Gaming Markets - Nearby States

## North Carolina Facts and Metrics

- Inception: 1997 (Cherokee); 2015 (Murphy)
- Total devices: 5,050 slots
- Total table games: 170 tables
- Hotel rooms: 1,408 (700-room expansion under construction)



# Gaming Market Analysis - Portsmouth Casino





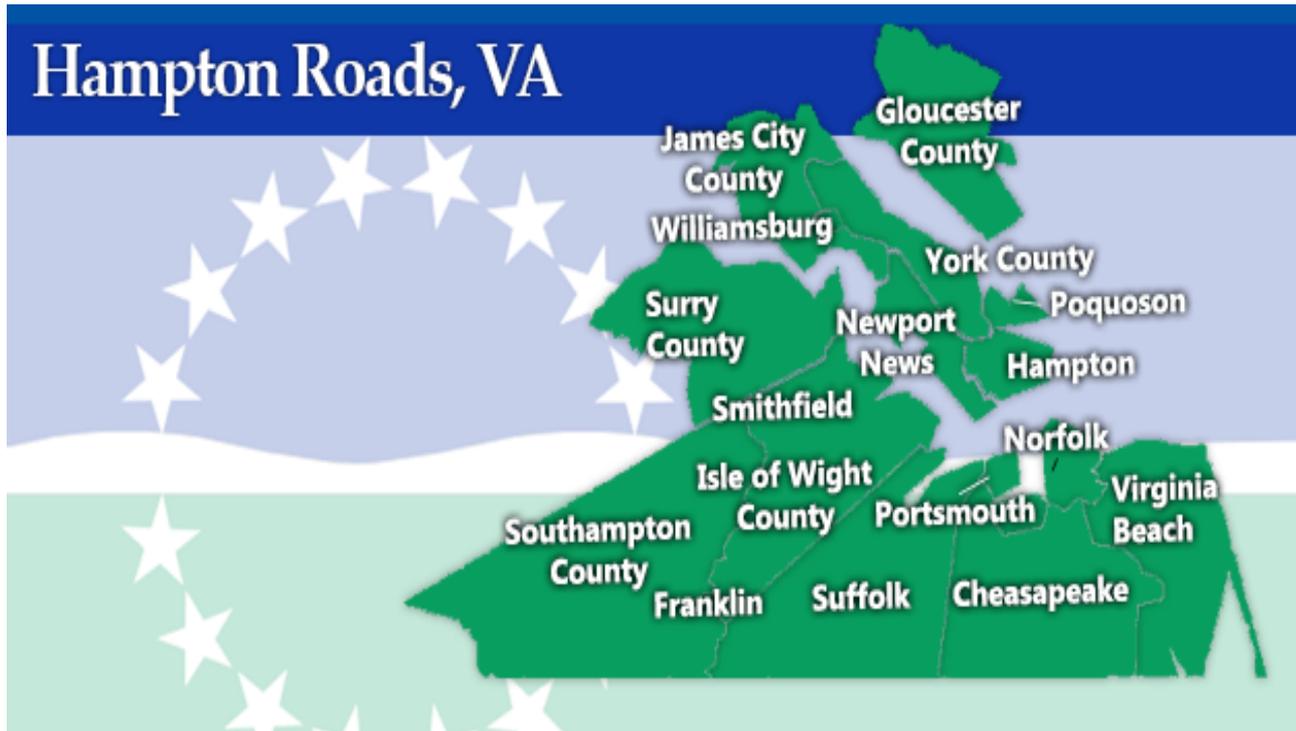
# Gaming Market Analysis

## Methodology

- Hampton Roads Gaming Market Potential
- Portsmouth Casino Potential



# Gaming Market Analysis





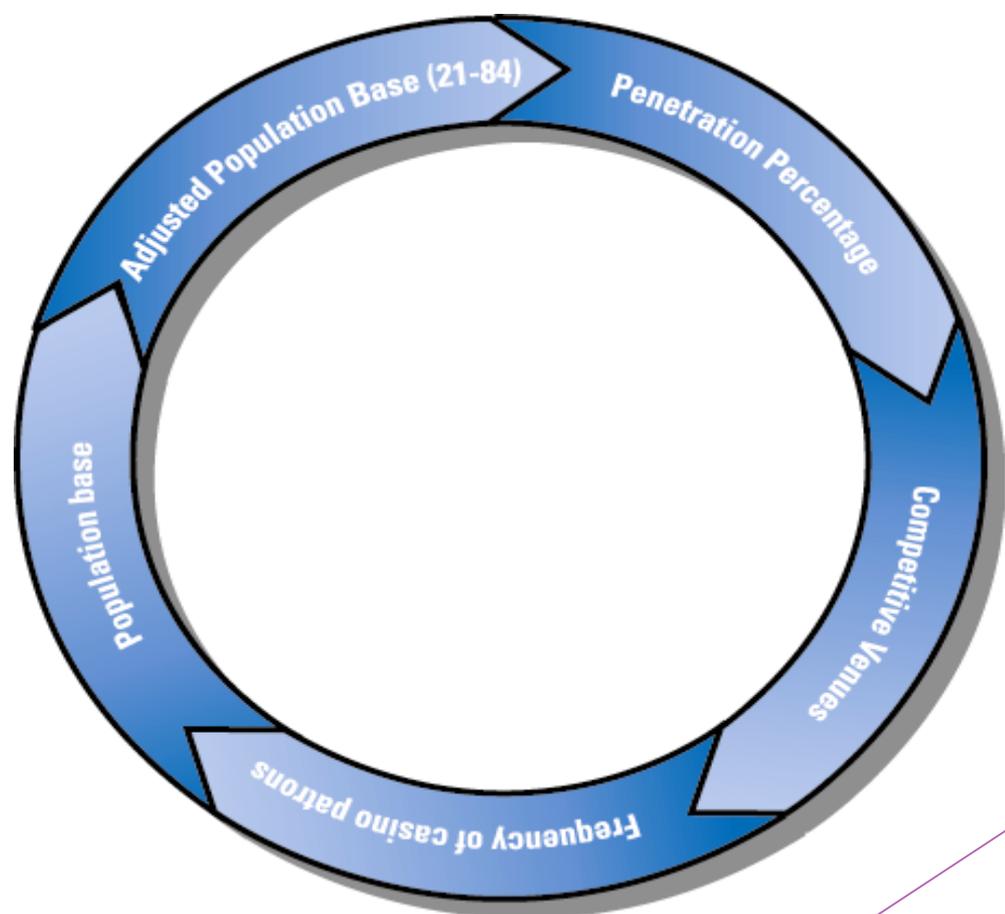
# Gaming Market Analysis

## General Assumptions

- Virginia casinos will open in Portsmouth, Norfolk, Danville, Richmond, and Bristol (not New Kent)
- 2024 is first year of operation of casinos
- Victory Village location in Portsmouth and downtown Norfolk location of 20 acres



# Gaming Market Analysis





# Gaming Market Analysis

## Gravity Model Assumptions

- Population growth - 2024
- Household income levels
- Propensity
- Frequency
- Distance and travel time
- Quality of facilities and amenities



# Gaming Market Analysis

## Hampton Roads Gaming Market

- \$550 million in total estimated gaming revenue
- Estimated optimal supply
  - 4,000 total gaming devices
  - 125 total table games
- Estimated performance metrics
  - Gaming devices: \$312 WPD
  - Table games: \$1,800 WPD



# Gaming Market Analysis

## Hampton Roads Gaming Market

- Two casinos are feasible
- Question: How will the market be divvied up?
  - Depends on the location and scope of each casino
  - In the end, the market will determine the allocation



# Portsmouth Recommended Programming

- Casino Square footage
- Number of devices and table games
- Parking
- Food and beverage outlets
- Hotel
- Meeting space & entertainment venue
- Other ancillary components
- Financial implications



## Casino Programming

- 180,000 square feet, includes circulation
- Portsmouth Casino
  - 2,400 gaming devices
  - 75 table games
- Assumes for Norfolk Casino:
  - 1,600 gaming devices
  - 50 tables



# Food and Beverage Programming

Food and Beverage Outlets Proposed Portsmouth Casino	
Outlet	Number of Seats
Buffet	300-325
Asian Restaurant or Latin Outlet	175
Sports Bar & Grill	200
Steakhouse	150
Food Court	4 venues
Coffee and Sweets	Free-Stand
Adjunct Food and Beverage: Banquets	
Hotel Room Service	



# Portsmouth/Norfolk Hotel Market

Portsmouth/Norfolk Hotel Competitive Set			
Property	Opening Year	Number of Rooms	Total Sq. Ft. Meeting Space
Renaissance Portsmouth	2001	249	21,562
Marriott Waterfront Norfolk	1991	405	68,879
Sheraton Waterfront Norfolk	1976	468	43,713
Hilton Norfolk	2017	300	42,000
Wyndham Garden Norfolk	1951	204	15,000

Source: Meister Economic Consulting.



# Portsmouth/Norfolk Hotel Market

Portsmouth/Norfolk Hotel Performance May-April		
Year	Occupancy	Average Daily Room Rate
2016/2017	67.9%	\$103.66
2017/2018	69.8%	\$113.06
2018/2019	67.5%	\$119.20

Source: Smith Travel Research

## 2019 Per Diem Rates

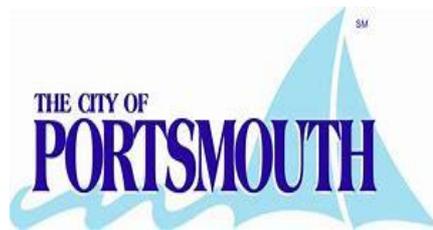
- Portsmouth/Norfolk: \$94
- City of Richmond: \$147





## Hotel Programming

- Quality level: 3.5 to 4.0 star level
- Number of Rooms: 300
- Meeting Space: 20,000 to 25,000 square feet



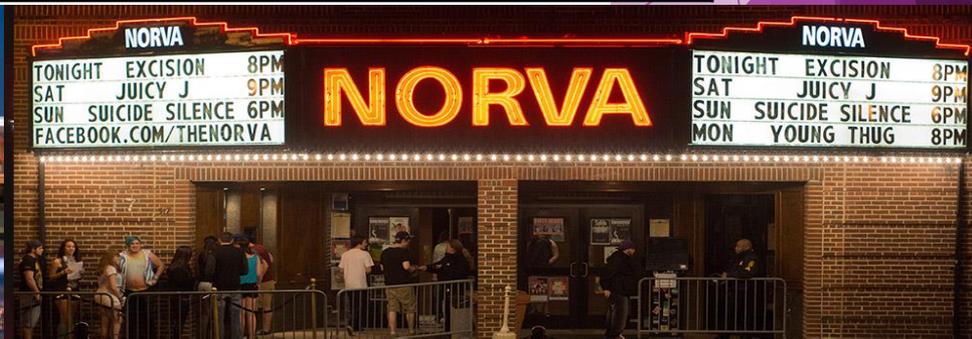
## Potential Subsequent Phases of Development

- Additional hotel rooms
- Multi-use venue

### Entertainment Venues in Portsmouth/Norfolk

Venue	Capacity	2018 Number of Concerts	Average Number of Tickets Sold	Utilization	Average Gross Revenue Per Show	Average Ticket Price
Chrysler Hall	2,488	39	1,572	63.2%	\$86,994	\$55.34
The NorVa	1,450	150	1,108	76.4%	\$31,773	\$28.68

Source: Pollstar





## Financial Analysis

- Casino Revenue
- Ancillary Revenue
- Operating Expenses
- Net Operating Income



# Financial Analysis

## Terminology

- Gross Revenue versus Net Revenue
- Promotional Allowances
- Key phraseology in the legislation



## Financial Analysis

- Portsmouth has the superior casino site
- Split of Hampton Roads gaming market
  - 60% Portsmouth; 40% Norfolk



## Portsmouth Potential Gaming Revenue

- Year 1 Total: \$330 million
  - Gaming devices: \$280 million
  - Table games: \$50 million



## Financial Analysis

- Ancillary revenue from hotel, food and beverage, and other
  - \$52.5 to \$59.6 million for the first five years of operation
- Total revenue = \$382.1 to \$415.3 million for first five years of operation



# Financial Analysis

## Promotional Allowances

- Promotional allowances can include rooms, food and beverage, free play, promotional gaming, bus program cash, retail, and entertainment
- Promotional allowances: 11% of gross revenue throughout the projection period



# Financial Analysis

## Departmental Expenses

- Casino expenses: nearly 19%
- Ancillary expenses
  - Hotel: graduated 20% to 15%
  - Food & beverage: graduated 106% to 98%
  - Other: 37% throughout projection period
- Operating expenses: \$112 to \$120 million throughout the projection period



# Financial Analysis

## Undistributed Expenses

- Undistributed expenses include Administrative & General, Marketing, Energy, and Property Operations & Maintenance
- Undistributed expenses: \$73 to \$79 million for first five years of operation (19% of gross revenue)



# Financial Analysis

## Fixed Expenses

- Real Estate Taxes: nearly \$3.4 million (year one)
- Property Insurance: \$1.5 million
- Capital Reserve: 3% to 5% of total revenue throughout the projection period (totaling over \$88 million)



## Financial Analysis

Net Operating Income Proposed Portsmouth Casino			
Year	Estimated Total Revenue	Net Operating Income*	Percent to Total Revenue
1	\$382,112,000	\$144,649,000	37.9%
2	\$390,917,000	\$145,454,000	37.2%
3	\$399,462,000	\$146,118,000	36.6%
4	\$408,276,000	\$149,396,000	36.6%
5	\$415,336,000	\$151,843,000	36.6%

\* Does not include deductions for state gaming taxes, city revenue sharing, or debt.



## Other Strategic Issues

- Potential infrastructure improvements
- Police and fire department support
- Virginia gaming tax rate
- Revenue sharing agreement with City
- Problem gambling mitigation - typically addressed in legislation



## Developer Considerations

- Future legislation
- Regulation
- Capital markets



VA State Legislature  
VA General Assembly





## Developer Considerations

- Project Cost: \$520 to \$540 million
- Cost of Capital/Return on Equity: 9%
- Expected Returns/Valuation-Multiples
- Exit Strategy